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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Unemployment And Inflation . . .

The jump in the U.S. jobless rate from nine per cent in March to 9.4 per cent in April, the highest level since 1941, has projected unemployment to the forefront of public attention. It is now the most visible sign of our current economic difficulties and because of its social and political implications, it is receiving wide comment in the press and from our political leaders.

While in no way minimizing the plight of the unemployed, it should be noted that unemployment even at current levels directly affects only a small percentage of the total U.S. population. Indeed, over 57 per cent of all of our working age population is currently employed—well above the postwar average. Further, there are factors which are helping to ameliorate the present situation. In the first place, unlike in 1941 a wider range of benefits is available to the unemployed. In many families there is additional wage income. In fact, about three out of every five U.S. families have more than one wage earner. Finally, some unemployed have been able to supplement their benefits with part-time work.

Inflation, on the other hand, affects everyone—employed and unemployed alike. It erodes purchasing power, encourages consumption and discourages savings and productive investment.

But while the United States is at best in the early stage of recovery and unemployment may climb higher yet, the one bright spot in the economic picture is the dramatic slowing of inflation. In April of last year, consumer prices were ten per cent above the same month in the previous year. This April, with prices rising only 0.2 per cent from March, when they had declined for the first time in 17 years, consumer prices were only 6.6 per cent higher than in the year before.

. . . Equal Discomfort

One way of looking at how the current economic malaise is affecting people is to add the percentage rate of inflation to unemployment to derive a "discomfort" index. This is a rough measure of the way people feel about their own economic well-being and that of their fellow countrymen.

Unfortunately, there is nothing in economic theory or in past experience to suggest that the discomfort index at the peak and trough of a business cycle will be equal (which would indicate a precise relationship between inflation and unemployment) so that it cannot be used as a tool for forecasting when a recession will end or what the inflation and unemployment rates will be at any point. However, since the higher the discomfort index is the more stress people are experiencing, a change in the index is a measure of relative economic improvement or deterioration.

A look at the change in the discomfort index for the United States and several other developed countries over the past year gives some insight into how the recent global recession has affected them. Between April of last year and April of this year, the U.S. discomfort index fell from 17.3 to 16.0. Although unemployment rose from 7.3 per cent of the civilian labor force to 9.4 per cent, the slowing of inflation more than compensated for it. The decline in the discomfort index should lead most people to perceive themselves as at least marginally better off than they were one year ago in spite of higher unemployment. This is significant because it eventually will contribute to an improvement in the confidence level of consumers, businessmen and investors about the future. An optimistic view of the future economic environment will help set the stage for recovery.

Abroad The Indexes Are Mixed

Elsewhere in the world the picture is mixed. In the United Kingdom, consumer price inflation fell from 12.6 per cent to 10.4 per cent between March, 1981 and March, 1982 under a policy of tight monetary and credit controls. In the same period, however, unemployment rose from 9.9 per cent to 11.8 per cent. The decline in the discomfort index from 22.5 to 22.2, though small, is encouraging, particularly when it is remembered that consumer price inflation in the U.K. peaked at 21.9 per cent in May, 1980 and has been slowing ever since. Unemployment in May, 1980 was 6.2 per cent, yielding a discomfort index of 28.1 for that month. When viewed from that perspective, the improvement is impressive. Other economic indicators for the United Kingdom

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suggest a further downward trend in inflation and better growth prospects for 1982 than in recent years. However, the Falkland Islands conflict, particularly if it expands or is extended, may damage British economic prospects.

West Germany's discomfort index increased from 9.8 in March of last year to 11.4 this year. Inflation fell slightly in the last year from 5.5 per cent to 5.2 per cent, while unemployment rose from 4.3 per cent to 6.2 per cent. Even though both inflation and unemployment levels are low compared with U.S. and U.K. levels, they are high in the historical and social context of the German economy and reveal its extraordinary sensitivity to external events. German exports are equivalent to about 32 per cent of GNP (compared with about 13 per cent for the U.S.).

Besides being very sensitive to the global recession, German unemployment also reflects low domestic demand. Further, the remarkable success of the German "economic miracle" since the early 1950s has made the recent recession particularly difficult to bear. The specter of the mass unemployment and hyperinflation of the 1920s still haunts the German economy. The perception of a worsened economic environment has discouraged growth prospects. At best, real GNP is expected to rise by one per cent in 1982.

France, too, has seen a rise in its discomfort level from 19.8 in March, 1981 to 22.8 one year later. In

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/12/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	137.671	– 4.622	+10.760
Loans to Depository Inst.	1.120	– .380	– .613
Float	2.164	+ .034	– 2.164
Total Reserve Bank Credit	150.736	– 5.714	+ 7.145
Treasury Deposits with Federal Reserve Banks	4.694	– 5.079	+ 1.395
Currency Outside Banks	128.838	+ 1.295	+ 7.232
Member Bank Reserves:			
Required	38.907	– 1.204	– 1.111
Excess (Deficiency)	.296	– .159	+ .169
Total Reserves Held	39.203	– 1.363	– .942
Net Borrowed Reserves	.606	– .234	– .774
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.529	– .881	–10.259
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	452.5	+ 3.2‡	+ 4.4‡
M2 (April '82)	1,879.0	+ 8.3	+ 9.0
M3 (April '82)	2,256.8	+ 9.6	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 5/21/82			
‡U.S. Treasury Bills	11.20%	11.35%	11.35%
* Federal Agencies	13.25	13.25	13.75
* Project Notes–Taxfree (46% Taxable Equivalent)	13.52	13.52	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.15	13.15	13.15

‡Finance Company Paper–Prime

5- 14 days	12.00%
15- 29 days	12.00
30- 59 days	12.75
60- 89 days	12.75
90-179 days	12.00
180-239 days	12.00
240-270 days	12.00

‡* Bankers' Acceptances

Jun.	13.30%
Jul.	13.10
Aug.	12.85
Sep.	12.80
Oct.	12.65
Nov.	12.45

‡Industrial Paper–Prime

30- 89 days	13.25%
90-120 days	13.13

†Federal Funds Effective Rate 13.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82n	2.4%	– 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons)†	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force†	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Apr '82n	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82n	881	941	1,301
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales†	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n Newly reported figure. a Anticipated.

spite of a widely publicized change in the direction of French economic policy toward reflation and expansion, unemployment rose from an estimated 7.3 per cent to about 8.7 per cent in the index period. At the same time, inflation edged up from 12.5 per cent to 14.1 per cent largely as a result of labor cost increases in excess of productivity improvements. The rise in both inflation and unemployment rates illustrates the difficulties confronting the Mitterrand government as it tries to reorient the French economy.

Japan's discomfort index has shown remarkable improvement, declining from 8.7 for February, 1981 to 5.4 for the same month this year. Over that period, unemployment, though high by Japanese standards at 2.3 per cent of the labor force, held steady. This is attributable to the custom of lifetime employment in Japan which makes unemployment statistics a less useful indicator of economic health than in many other countries. In the last year, however, the Japanese government has more than halved the inflation rate from 6.4 per cent to 3.1 per cent (February to February). Much of this improvement is due to suppressed domestic demand as well as the fall in import prices resulting from global recession. It also reflects the effectiveness of Japanese economic management. There are already early signs of an improvement in Japanese economic growth prospects for this year. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/5/82)	132,496	– 1,155	+17,820
New York City (5/5/82)	33,494	– 687	+ 4,828
Commercial Paper (5/5/82)	174,453	+ 2,907	+37,267

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/5/82)	207,642	+ 2,911	+30,247
New York City (5/5/82)	58,756	+ 1,466	+ 6,636

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/5/82)	483,216	+ 3,699	+47,834
New York City (5/5/82)	113,076	+ 2,082	+ 9,445

Financial Markets

	Friday 5/21/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.80%	– .85	– 4.84
180-Day Bills†	12.48	– .62	– 3.02
Longest Bills†	12.91	– .34	– 1.45
Recent Issues:			
13 3/4s 5/31/84 (When Issued)	13.42	NA	
14s 3/31/86	13.62	+ .13	
13 3/4s 5/15/92	13.40	– .01	
14s 11/15/11	13.06	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (5/20/82)	11.96%	+ .14	+ 1.23
Blue List Total ($ Million)	$1,810	+ $719	+ $972
30-Day Visible Supply ($ Million)	$1,660	– $850	– $ 23
Total	$3,470	– $131	+ $949
Corporates:			
Moody's Aa Composite (5/20/82)	14.79%	+ .11	– .12
30-Day Visible Supply ($ Million) ‡	$2,198	– $620	NA
Stocks:			
Dow-Jones Averages:			
Industrials	835.90	– 21.88	– 135.82
Transportation	333.56	– 17.28	– 92.97
Utilities	113.78	– 1.79	+ 6.87
65 Stocks	328.36	– 10.49	– 51.51
Standard and Poor's 500 Stocks	114.89	– 3.12	– 16.44
N.Y.S.E. Composite Index	66.26	– 1.85	– 10.00
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,468	– 6,254	+ 4,482

* 46% Taxable equivalent 22.15%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

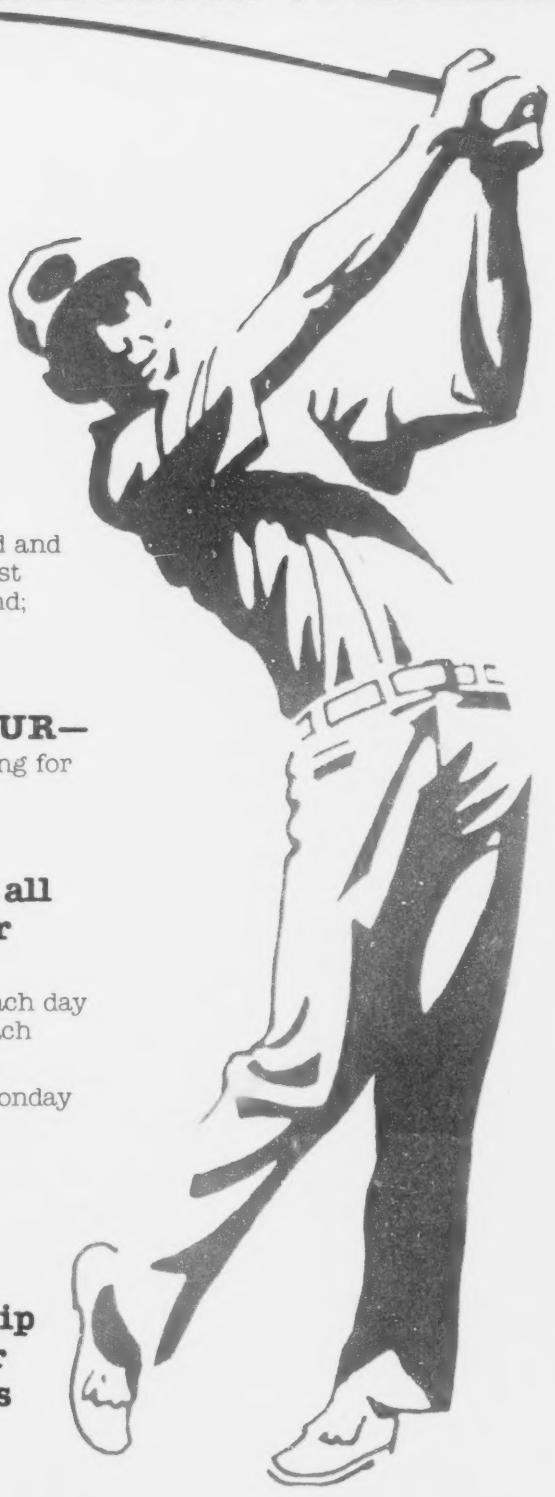
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/21/82	Week Ago
Overnight	13.63%	14.88%
1 month	14.50	15.00
3 month	14.31	14.69
6 month	14.31	14.50
1 year	14.31	14.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.50%
Long Term (7 to 15 yrs.)	14.60	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/21/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02301	43.45
Canada	.8132	1.2297
Denmark	.1279	7.8175
France	.1668	5.9950
Germany	.4346	2.3008
Italy	.0007829	1277.30
Japan	.004222	236.88
Mexico	.02132	46.91
Netherlands	.3911	2.5570
Switzerland	.5106	1.9585
U.K.	1.7965	.5566

GOLF FANS' DREAM WEEK



WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR—

including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

SEE YOU THERE!

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